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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001326

SIPDIS

ENERGY FOR ALOCKWOOD AND LEINSTEIN, DOE/EIA FOR MCLINE
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E.O. 12958: DECL: 10/15/2019
TAGS: EPET EINV ENRG ECON VE
SUBJECT: VENEZUELA: JOINT VENTURE WITH PETROVIETNAM NEARING
COMPLETION

REF: CARACAS 1236

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Classified By: Economic Counselor Darnall Steuart, for reasons
1.4 (b) and (d).

¶1. (C) SUMMARY: According to senior PDVSA officials, the process to launch a joint venture between PDVSA and PetroVietnam is pending a decree from President Chavez. Plans for PDVSA to build a refinery in Vietnam have fallen through, however. Nevertheless, PDVSA continues to plan to sign a long-term supply contract with the Asian country. END SUMMARY.

¶2. (C) Petroleum Attache (PetAtt) separately interviewed Frank Gyax (PDVSA Vice President for New Refineries, Upgraders, and Terminals) and his deputy, Ygor Martinez Acurero, on September 29 when they were identified on the visa line by alert Consular Officers. Both represent PDVSA on numerous joint venture (JV) boards, including the JV with PetroVietnam in the Junin 2 block of the Faja heavy oil belt. The two provided a unique look into the formation of a joint venture and a foreign refinery project.

PetroVietnam Plans and Production Model

¶3. (C) According to Acurero (protect throughout), PDVSA is waiting on a presidential decree formally to launch the joint venture. He described the development process for state-to-state deals, saying that the GBRV and a partner state first sign a "global agreement." Second, the respective oil ministries and national oil companies develop a business plan, which is submitted to the National Assembly for approval. Once approved, the Bolivarian Ministry for Energy and Petroleum (MENPET) assigns a block to the potential joint venture. The entire package is then submitted to the executive, who issues a presidential decree, effectively approving the creation of the JV. Finally, the contract is signed to begin operations. At the end of

September, Vietnam's delegation was in Caracas waiting for President Chavez's decree. Gyax (protect throughout) described this project as the most advanced of all JV processes underway. (NOTE: Per reftel A, the Russian consortium has a negotiation team in Venezuela working out the details of the Junin 6 joint venture agreement. PetAtt understands negotiations are also underway concerning China National Petroleum Company (CNPC) and PDVSA's joint venture in Junin 4.)

¶4. Gyax stated that the business plan for the PetroVietnam Junin 2 JV is to produce 200,000 b/d of 8 degree API crude, dilute it to 14-16 degrees API, and send it through an upgrader to be constructed in Junin. PDVSA expects to have 180,000 b/d of upgraded petroleum at 32 degrees API that it plans to mix with heavy crude petroleum produced elsewhere in Junin, resulting in 350-360,000 b/d. He expects the JV would export 200,000 b/d to a refinery in Vietnam.

Plans to Build a Refinery in Vietnam Foiled by the UAE

¶5. (C) According to Gyax, the GBRV had agreed to build a refinery in Vietnam through a JV with 60 per cent PDVSA, 20 per cent Vietnamese, and 20 per cent Malaysian ownership. He stated that Vietnam had plans to build three refineries and that PDVSA was involved in the third project, Long Son. He claimed the deal fell through when the UAE took over the project. PDVSA now plans to sign a long-term supply contract with the first refinery and export production from the JV to Vietnam.

¶6. (C) COMMENT: These senior PDVSA officials presented an interesting look into the formation of a JV concurrent with

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President Chavez's announcements of multi-billion dollar deals with the Russian consortium, China's CNPC, and France's Total to develop other blocks in the so-called Junin section of the Faja heavy oil belt. The Vietnamese project is closer to completion, but has not garnered the same triumphant declarations from the Venezuelan President, leading some to speculate that his media declarations maybe negotiating tactics. Given the dire state of Venezuelan refineries and delayed plans to begin other foreign refinery projects, PDVSA is likely relieved that it lost the refinery project in Vietnam, while maintaining the possibility to advance President Chavez's goal of diversifying Venezuela's exports away from the United States. Early production from the PDVSA-PetroVietnam JV is years away and there has been no indication how this project would be financed. END COMMENT.
DUDDY